

CALIFORNIA STATE TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Approval of Minutes of the April 6, 1999 and
April 7, 1999 Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 2

ACTION: X

DATE OF MEETING: May 5, 1999

INFORMATION: _____

PRESENTER(S): Chairperson

Proposed minutes of the Investment Committee Meeting held in open session April 6, 1999 and April 7, 1999 are submitted on the following pages.

**PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
APRIL 6, 1999
OPEN SESSION
ROBYN D. MILLER BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA**

COMMITTEE MEMBERS PRESENT

Gary Lynes, Chairperson
Yvonne Gallegos Bodle
Marty Mathiesen
Lillian Raffel
Emma Zink
Michael Picker, representing State Treasurer, Phil Angelides
Kathleen Connell, State Controller
Annette Porini, representing State Director of Finance, Tim Gage

ALSO PRESENT

James Mosman, Chief Executive Officer
Patrick Mitchell, Chief Investment Officer
Elleen Okada, Director of Investment Admin. and External Relations
Chris Waddell, Chief Counsel
Beth Renge, Deputy Controller
Ellen Clark, Watson Wyatt Investment Consulting
Carolyn Smith, Watson Wyatt Investment Consulting
Allan Emkin, Pension Consulting Alliance
Neil Rue, Pension Consulting Alliance
Joseph Dion, CRTA
Lois Shive, CTA
Beverly Carlson, CTA
Ann McWherter, DPA
Charles Girratana, CTA
Loretta Toggenburger, UTLA
Mary Ann Avansino, Executive Assistant

A quorum being present, Chairperson Lynes called the open session meeting to order at 3:05 p.m.

- I. **ANNOUNCEMENTS** (Item 2)
Chairperson Lynes introduced Ms. Renge, representing the State Controller.
- II. **APPROVAL OF MINUTES OF THE MARCH 3, 1999 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)

MOTION duly made by Ms. Zink, seconded by Mr. Mathiesen and carried to approve the minutes of the March 3, 1999 Investment Committee, Open Session as presented.

III. **GENERAL PENSION CONSULTANT – FINALIST INTERVIEW AND SELECTION** (Item 4)

Mr. Mitchell reported that 89 Request for Proposals had been mailed or downloaded resulting in six responses which met the minimum qualifications. Following proposal evaluation, five firms were identified as finalists.

Ms. Porini arrived at the meeting at 3:15 p.m.

Mr. Waddell was asked to comment upon whether a Committee member who missed a portion of the finalist interviews could vote on the selection. Mr. Waddell advised the Committee that the past practice of the Committee concerning consultant selection was that a member would have to be present for all interviews in order to vote. He also advised the Committee that this was also consistent with "best practices." He further advised the Committee that neither past practice nor "best practices" were binding upon the committee members, and that members were bound by their fiduciary responsibility. He referred the members to their obligation to discharge their duties with care, skill, prudence and diligence, and advised that under that test a Committee member who missed a portion of the interviews under could proceed to vote if the member felt that he or she was capable of making a fully informed decision under the circumstances.

A presentation by Watson Wyatt Investment Consulting, represented by Ms. Clark and Ms. Smith, began at 3:20 p.m. Questions and answers followed the presentation.

Dr. Bodle arrived at the meeting at 3:55 p.m.

The interview concluded at 4:10 p.m.

A presentation by Pension Consulting Alliance, represented by Mr. Emkin and Mr. Rue, began at 4:30 p.m. Questions and answers followed the presentation.

Dr. Connell arrived at the meeting at 4:40

Mr. Picker left the meeting at 4:45 p.m.

The interview concluded at 5:20 p.m.

Chairperson Lynes recessed the meeting at 5:20 p.m. and announced that the meeting would reconvene at 8:30 a.m. on Wednesday, April 7, 1999.

James D. Mosman, Chief Executive Officer and Secretary to the
Teachers' Retirement Board

Gary Lynes, Chairperson

**PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
APRIL 7, 1999
OPEN SESSION
ROBYN D. MILLER BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA**

COMMITTEE MEMBERS PRESENT

Gary Lynes, Chairperson
Yvonne Gallegos Bodle
George Fenimore
Marty Mathiesen
Lillian Raffel
Emma Zink
Phil Angelides, State Treasurer
Kathleen Connell, State Controller
Richard Whitmore, representing State Superintendent
of Public Instruction, Delaine Eastin
Annette Porini, representing State Director of Finance, Tim Gage

ALSO PRESENT

James Mosman, Chief Executive Officer
Patrick Mitchell, Chief Investment Officer
Elleen Okada, Director of Investment Admin. and External Relations
Chris Waddell, Chief Counsel
Beth Renge, Deputy State Controller
Michael Picker, Deputy State Treasurer
Chris Drevalas, Treasury Program Manager
Ed Derman, DCEO, External Affairs and Program Development
Doug Wills, Staff Counsel
Mitch Pleis, Director of Real Estate
Real Desrochers, Director of Alternative Investments
Michelle Cunningham, Director of Fixed Income
Steven Tong, Director of Internal Equities
Richard Rose, Investment Officer
Paul Shantic, Investment Officer
Glenn Hosokawa, Investment Officer
Allan Emkin, Pension Consulting Alliance
Terry Sander, Pension Consulting Alliance
Al Clerc, Pathway Capital Management
James Reinhardt, Pathway Capital Management
Kamal Duggirala, Barra Rogers Casey
Joe Nankoff, Barra Rogers Casey
Sean Cumisky, Barra Rogers Casey

Ronald Peyton, Callan Associates
Toni Brown, Callan Associates
Terry A. Dennison, William M. Mercer Investment Consulting
Kristine Ford, William M. Mercer Investment Consulting
Lawrence Gibson, William M. Mercer Investment Consulting
George Wichman, California Teachers' Association
Edna White, California Retired Teachers' Association
Beverly Carlson, California Teachers' Association
Loretta Toggenburger, United Teachers of Los Angeles
Charles C. Girratana, California Teachers' Association
Bill Collins, California Teachers Association
Dorothy Moser, United Teachers Los Angeles, Retired
Mary Ann Avansino, Executive Assistant

A quorum being present, Chairperson Lynes reconvened the open session meeting at 8:35 a.m.

I. **GENERAL PENSION CONSULTANT – FINALIST INTERVIEW AND SELECTION** (Item 4)

A presentation by Barra Rogers Casey, represented by Mr. Duggirala, Mr. Nankoff, and Mr. Cumiskey began at 8:38 a.m.

Ms. Renge arrived at the meeting at 8:40 a.m.

Questions and answers followed the presentation.

The interview concluded at 9:25 a.m.

Chairperson Lynes recessed the meeting at 9:26 a.m.
The meeting reconvened at 9:40 a.m.

Mr. Fenimore arrived at the meeting at 9:40 a.m.

A presentation by Callan Associates, represented by Mr. Peyton and Ms. Brown, began at 9:42 a.m. Questions and answers followed the presentation.

Dr. Connell arrived at the meeting at 10:10 a.m.

The interview concluded at 10:40 a.m.

Chairperson Lynes recessed the meeting at 10:41 a.m.
The meeting reconvened at 10:55 a.m.

A presentation by William M. Mercer Investment Consulting, represented by Mr. Dennison, Ms. Ford, and Mr. Gibson began at 10:55 a.m. Questions and answers followed the presentation.

Mr. Whitmore left the meeting at 11:55 a.m.

The interview concluded at 12:10 p.m.

Chairperson Lynes recessed the meeting at 12:10 p.m.
The meeting reconvened at 12:15 p.m.

Mr. Mitchell stated that the RFP allowed for selection of up to three consultants. He reviewed possible structures should the Committee decide to select more than one consultant.

Mr. Waddell was asked to repeat his comments to the Committee upon whether a Committee member who missed a portion of the finalist interviews could vote on the selection. Mr. Waddell advised the Committee that the past practice of the Committee concerning consultant selection was that a member would have to be present for all interviews in order to vote. He also advised the Committee that this was also consistent with "best practices." He further advised the Committee that neither past practice nor "best practices" were binding upon the committee members, and that members were bound by their fiduciary responsibility. He referred the members to their obligation to discharge their duties with care, skill, prudence and diligence, and advised that under that test a Committee member who missed a portion of the interviews under could proceed to vote if the member felt that he or she was capable of making a fully informed decision under the circumstances.

Discussion ensued regarding possible structures for multiple consultants as well as the fee proposals.

Chairperson Lynes recessed the meeting at 12:40 p.m.
The meeting reconvened at 12:55 p.m.

Discussion continued regarding selection for general consultant(s).

MOTION duly made by Mr. Picker and seconded by Ms. Zink to contract with one general consultant and two special project consultants.

Discussion ensued.

AMENDED MOTION duly made by Dr. Connell and seconded by Dr. Bodle to contract with one general consultant firm which utilizes a vertically integrated structure and two special project consultants.

Discussion on the amended motion ensued.

Ms. Zink called for the question on the amended motion. A roll call vote was taken. Dr. Bodle, Ms. Raffel, Ms. Connell voted no. Mr. Fenimore, Mr. Mathiesen, Ms. Zink, Mr. Picker and Ms. Porini voted yes. The question to end discussion on the amended motion carried.

A roll call vote was taken on the amended motion made by Dr. Connell to contract with one general consultant firm which utilizes a vertically integrated structure and two special project consultants. Dr. Bodle and Dr. Connell voted yes, Mr. Fenimore, Mr. Mathiesen, Ms. Raffel, Ms. Zink, Mr. Picker and Ms. Porini voted no. The motion was defeated.

Ms. Raffel called for the question on the original motion made by Mr. Picker to contract with one general consultant and two special project consultants. A roll call vote was taken. Dr. Bodle, Mr. Fenimore, Mr. Mathiesen, Ms. Raffel, Ms. Zink, Mr. Picker and Ms. Porini voted yes. The question to end discussion on the original motion carried.

A roll call vote was taken on the original motion made by Mr. Picker. Dr. Bodle, Mr. Fenimore, Mr. Mathiesen, Ms. Raffel, Ms. Zink, Mr. Picker Dr. Connell and Ms. Porini voted yes. The original motion carried.

Discussion of the interviews continued.

MOTION duly made by Dr. Connell, seconded by Ms. Porini and carried to limit candidates for the final selection for the general pension consultant to Callan Associates, Pension Consulting Alliance, and Mercer Investment Consulting.

Discussion continued.

MOTION duly made by Mr. Mathiesen and seconded by Mr. Fenimore to adopt a resolution to contract with Pension Consulting Alliance to provide general pension consulting services for up to five years. A roll call vote was taken. Dr. Bodle, Mr. Fenimore, Mr. Mathiesen, Ms. Raffel, Ms. Zink, Mr. Picker, and Ms. Porini voted yes. Dr. Connell voted no. The motion carried.

Mr. Whitmore returned to the meeting at 2:05 p.m.

MOTION duly made by Ms. Zink, seconded by Dr. Bodle and carried to limit the candidates for the final selection of special project consultants to Callan Associates, Barra Rogers Casey, and Mercer Investment Consulting. Mr. Whitmore abstained.

MOTION duly made by Dr. Connell, Seconded by Ms. Raffel and carried to adopt a resolution to contract with Callan Associates and Mercer Investment Consulting for special project consulting services. Mr. Whitmore abstained.

Chairperson Lynes recessed the meeting at 2:10 p.m.
The meeting reconvened at 2:20 p.m.

Dr. Connell did not return to the meeting following recess. Ms. Renge assumed representation for the State Controller.

II. **GENERAL - SEMI-ANNUAL PERFORMANCE REPORT FOR PERIOD ENDING DECEMBER 31, 1998** (Item 5)

Mr. Emkin presented a written and oral performance report for the period ending December 31, 1998. Discussion ensued.

Mr. Angeledes arrived at the meeting at 2:35 p.m.

MOTION duly made by Mr. Fenimore, seconded by Ms. Zink and carried to adopt a resolution to accept the semi-annual report submitted by Pension Consulting Alliance as presented.

III. **ALTERNATIVE INVESTMENT - SEMI-ANNUAL PERFORMANCE REPORT FOR PERIOD ENDING DECEMBER 31, 1998** (Item 6)

Mr. Clerc and Mr. Reinhardt presented a written and oral performance report for the period ending December 31, 1998. Discussion ensued.

MOTION duly made by Mr. Fenimore, seconded by Mr. Whitmore and

carried to adopt a resolution to accept the semi-annual report submitted by Pathway Capital Management as presented.

IV. **REAL ESTATE - SEMI-ANNUAL PERFORMANCE REPORT FOR PERIOD ENDING DECEMBER 31, 1998** (Item 7)

Ms. Sander presented a written and oral performance report for the period ending December 31, 1998. Discussion ensued.

MOTION duly made by Mr. Whitmore, seconded by Ms. Zink and carried to adopt a resolution to accept the semi-annual report submitted by Pension Consulting Alliance and E&Y Kenneth Levanthal.

Chairperson Lynes recessed the meeting at 3:45 p.m.

The meeting reconvened at 3:55 p.m.

V. **FIXED INCOME – FIXED INCOME POLICY** (Item 8)

Ms. Cunningham and Mr. Shantic reviewed the Long-Term Fixed Income Policy Manual. Discussion ensued.

Mr. Whitmore and Mr. Fenimore left the meeting at 4:05 p.m.

MOTION duly made by Mr. Angelides, seconded by Ms. Zink and carried to adopt a resolution to approve the Long Term Fixed Income Policy Manual as presented.

VI. **FIXED INCOME – HOME LOAN POLICY** (Item 9)

Ms. Cunningham and Mr. Shantic reviewed the Home Loan Program Policy Manual. Discussion ensued.

Mr. Whitmore and Mr. Fenimore returned to the meeting at 4:15 p.m.

MOTION duly made by Mr. Mathiesen, seconded by Mr. Angelides and carried to adopt a resolution to approve the Home Loan Program Policy Manual as presented.

Mr. Angelides left the meeting at 4:25 p.m. Ms. Drevalas assumed representation for the State Treasurer.

Ms. Renge left the meeting at 4:25 p.m.

VII. **FIXED INCOME – LIQUIDITY POLICY** (Item 10)

Ms. Cunningham and Mr. Hosokawa reviewed the Liquidity Portfolio Policy Manual. Discussion ensued.

MOTION duly made by Mr. Mathiesen, seconded by Mr. Whitmore and carried to adopt a resolution to approve the Liquidity Portfolio Policy Manual as presented.

VIII. **EXTERNAL EQUITY - SOFT DOLLAR POLICY** (Item 11)

Ms. Okada reviewed the Soft Dollar Program Policy Manual. Discussion ensued.

Ms. Renge returned to the meeting at 4:30 p.m.

Discussion continued. The Committee directed staff to amend the policy manual to include a provision for an annual report to the Committee.

MOTION duly made by Mr. Fenimore, seconded by Ms. Zink and carried to approve the Soft Dollar Program Policy Manual as amended.

Dr. Bodle left the meeting at 4:38 p.m.

- IX. **ALTERNATIVE INVESTMENTS – CO INVESTMENT POLICY** (Item 12)
Mr. Desrochers and Mr. Rose reviewed the Alternative Investments Policy Manual. Discussion ensued.

The Committee directed strike “and Other International” from 3. D. Geographic Location.

MOTION duly made by Ms. Zink, seconded by Mr. Whitmore and carried to adopt a resolution to approve the Alternative Investments Policy Manual as amended.

- X. **CREDIT ENHANCEMENT – CREDIT ENHANCEMENT POLICY** (Item 13)
Mr. Rose reviewed the credit enhancement business plan for 1999/00 and the Credit Enhancement Program Policy Manual. Discussion ensued.

Dr. Bodle returned to the meeting at 4:45 p.m.

Mr. Whitmore stated for the record that he commends the entrepreneurial spirit that Mr. Rose and staff have displayed in developing and expanding the credit enhancement program.

MOTION duly made by Ms. Zink, seconded by Mr. Fenimore and carried to adopt a resolution to approve the Credit Enhancement program Policy Manual as presented.

- XV. **ACTIVITY STATUS REPORT – CREDIT ENHANCEMENT** (Item 16)
Mr. Rose presented the written report as well as an update on credit enhancement for schools.

- XVI. **LEGISLATION** (Item 14)
There was nothing further to report.

- XVII. **QUARTERLY LITIGATION REPORT** (Item 15)
Mr. Waddell presented the written report.

- XVIII. **ACTIVITY STATUS REPORT – REAL ESTATE** (Item 17)
Mr. Pleis presented the written report. He stated that, pending on-site visits, nine managers were selected.

- XIX. **ALTERNATIVE INVESTMENTS - ACTIVITY STATUS REPORT** (Item 18)
Mr. Desrochers presented the written report and reported on a \$30 to \$40 million investment made under delegation to a new partnership, CGW Southeast Partners IV, L.P.

- XX.. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 19)
Mr. Mitchell presented written report. He reviewed the local currency/U.S. Dollar results of major world equity indices

- XXI. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 20)
There were no statements from the public.

XXII. **MOVE TO CLOSED SESSION**

Chairperson Lynes recessed the meeting at 5:30 p.m. and reconvened directly into closed session at 5:30 p.m.

XXI. **ADJOURNMENT**

Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 6:30 p.m.

James D. Mosman, Chief Executive Officer and Secretary to the
Teachers' Retirement Board

Gary Lynes, Chairperson